

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF CLEARWATER
DISPOSAL, INC., AND AMBLESIDE LIMITED,
BELL COUNTY, KENTUCKY, FOR A CERTIFI-
CATE OF PUBLIC CONVENIENCE AND
NECESSITY TO CONSTRUCT A SEWAGE TREAT-
MENT PLANT, FOR APPROVAL OF RELATED
FINANCING AND THE ESTABLISHMENT
OF INITIAL RATES

CASE NO. 8274

O R D E R

Clearwater Disposal, Inc., ("Clearwater") and Ambleside Limited ("Ambleside") filed their joint application on July 1, 1981, for a certificate of public convenience and necessity authorizing the construction of a new waste water treatment plant and collection system, approval of proposed initial rates and approval of related financing.

A hearing was held on October 6, 1981, in the offices of the Public Service Commission in Frankfort, Kentucky. At the hearing certain requests for additional information were made. This information has been filed and the entire matter is now submitted for final determination by this Commission.

TEST PERIOD

Clearwater is a proposed rather than an operating utility and test-year information does not exist. Estimated pro forma

expenses were utilized for the determination of revenue requirements.

PROJECTED REVENUES AND EXPENSES

Clearwater submitted a level of operating expenses projected on the basis of providing service to approximately 75 residential customers. The Commission is of the opinion that the projected operating expenses generally are proper and they have, therefore, been accepted with the following exception:

Clearwater proposed to include in its anticipated operating expenses a reserve fund for the replacement of major equipment items with anticipated useful lives of 10 years or less. The Commission is of the opinion that this is in fact a depreciation expense. Ambleside has testified that it will recoup the entire cost of the sewer system through the sale of lots. Since the Commission views depreciation, for rate-making purposes, as a means to recoup the investment in the utility plant in service and not as a fund for future investment, and, as Ambleside will recoup the investment in the utility plant through the sale of lots, the Commission has disallowed the inclusion of this item in Clearwater's operating expenses for rate-making purposes. Upon completion of construction and installation Ambleside will donate all of its right, title and interest in the sewage treatment plant to Clearwater.

Therefore, the Commission has determined that the reasonable level of operating expenses is \$7,936.

VALUATION METHOD

The Commission has found that Clearwater's investment records are insufficient in detail to provide the information necessary to determine the net investment or capitalization of Clearwater for rate-making purposes. Therefore, the Commission is of the opinion that the operating ratio method should be utilized in this instance.

The formula used in computing operating ratio is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + (\text{Net of Interest Expense}) + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenue}}$$

FINDINGS AND ORDERS

Based on the evidence of record, the Commission finds that:

1. Public convenience and necessity require that the construction proposed in the application be performed, and that a certificate of convenience and necessity be granted.
2. The construction project proposed by Ambleside consists of a sewage collection system and a 30,000 GPD sewage treatment plant with secondary treatment by the extended aeration process and tertiary facilities, at an estimated total project cost of \$169,180 to provide sewer service for a proposed subdivision consisting of 75 single-family residential units.
3. According to exhibits filed in this case, the estimated total cost of \$169,180 for the sewage collection and treatment system will be recouped by Ambleside at such time as all 75 lots of the proposed development have been sold.

4. The proper method to determine revenue requirements in this instance is the operating ratio method.

5. The evidence in this case indicates that the proposed initial rate is inadequate at this time to produce the required revenue to meet Clearwater's operating expenses.

6. A utility formed by real estate developers should not request initial rates which are insufficient to meet its anticipated operating expenses. It has been the Commission's experience that rates which are inadequate result in higher operating expenses because of the utility's continuing need to request increased rates. These rates are unfair to the purchasers of the developed lots who expect to pay low sewage fees for a period of time longer than the initial rates are usually in effect.

7. Ambleside represented to the Commission that it will subsidize any deficits caused by an excess of expenses over income until the subdivision has 75 customers on line. The granting of a certificate of convenience and necessity and approval of the rates herein are expressly conditioned on the performance by Ambleside of such undertaking, and further, on full written disclosure by Ambleside to the first 75 customers that rates may not reflect all the costs of operation of the treatment system. The disclosure shall be made before such customers have committed themselves to purchase property to be served by the system, and shall be in substantially the following form:

The current rate for sewer treatment services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, your sewer rates may increase substantially.

8. The rate in Appendix A attached hereto and made a part hereof should produce gross annual revenues of \$7,936 from 75 customers and is the fair, just and reasonable rate to be charged for sewage services rendered by Clearwater.

9. An operating ratio of approximately 0.88 will result from the estimated revenues produced by the fully developed subdivision and should provide a reasonable return margin^{1/} in this instance.

10. The revenues of \$7,936 are necessary and will permit Clearwater to meet its reasonable projected operating expenses and to accumulate a reasonable return for equity growth.

11. Clearwater has filed with the Public Service Commission a valid third party beneficiary agreement as a part of its application.

12. Within 60 days of the date of substantial completion of construction, Ambleside should provide the Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.).

13. Within 60 days of the date of substantial completion of construction, Ambleside should require the engineer to furnish the Commission with a copy of the as-built plans and a certification that construction has been satisfactorily completed in accordance with the contract plans and specifications.

^{1/} Return Margin is the amount remaining for the payment of a return on the investment of the security holders.

14. Clearwater and Ambleside should file with the Commission all contracts subject to the Commission's approval.

IT IS THEREFORE ORDERED that Ambleside be and it hereby is granted a certificate of public convenience and necessity to proceed with the construction in the application and record.

IT IS FURTHER ORDERED that Clearwater be and it hereby is granted a certificate of convenience and necessity to operate the sewage system constructed by Ambleside.

IT IS FURTHER ORDERED that the rate in Appendix A attached hereto and made a part hereof is hereby fixed as the fair, just and reasonable rate of Clearwater to become effective for service rendered in the area defined in the application on and after the date of this Order.

IT IS FURTHER ORDERED that Clearwater shall file with the Commission within 30 days of completion of the proposed construction its tariff sheets setting forth the rate approved herein and all rules and regulations of the utility.

IT IS FURTHER ORDERED that within 60 days of the date of substantial completion of construction, Clearwater and Ambleside shall provide the Commission with duly verified documentation of the total cost of this project including cost of construction and all other capitalized costs (engineering, legal, administrative, etc.).

IT IS FURTHER ORDERED that within 60 days of the date of substantial completion of construction, Clearwater and Ambleside shall furnish the Commission with a copy of the as-built plans and a certification that construction has been satisfactorily completed in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that Clearwater and Ambleside shall file with the Commission all contracts for services subject to the Commission's approval.

IT IS FURTHER ORDERED that the granting of this certificate of convenience and necessity be and it hereby is expressly conditioned upon the representations made by Ambleside stated in finding number 7.

IT IS FURTHER ORDERED that Ambleside shall furnish to the Commission written acknowledgement of notice from each customer as contained in Appendix B to this Order.

Done at Frankfort, Kentucky, this 15th day of January, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Woff
Chairman

Katherine Randall
Vice Chairman

Jim Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC
SERVICE COMMISSION IN CASE NO. 8274
DATED JANUARY 15, 1982

The following rate is prescribed for sewage disposal services rendered to all residential customers served by Clearwater Disposal, Inc., and Ambleside Limited, in Castleford Heights Subdivision, in Bell County, Kentucky:

Type of Service Provided

Monthly Rate

Single-Family Residential

\$8.82 per residence

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8274 DATED JANUARY 15, 1982

I have read and fully understand the following:

The current rate for sewer treatment services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, your sewer rates may increase substantially.

Customer's Signature

Address

Date